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1984 National Trust
Conference in San Francisco

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COVER



The 1984 National Trust Conference of the American Bankers Association will be held in San Francisco. The title of the conference is "New Horizons," a theme that Van Gathany, ABA Trust Division Chairman, makes clear is meant to include new investment opportunities and new services. (Cover photo of the Golden Gate Bridge, courtesy of San Francisco's convention and visitors bureau.)

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Synergy and Long-Term Profit: The Advantages of Pursuing Future Fee Business

*Overemphasizing current fees may be at the
expense of an important future revenue source*

By **LAWRENCE H. BUDNER**

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and Senior Trust Officer
and

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With a growing emphasis in trust departments on generating current fees, the question of whether future fees are still worth the effort needed to procure them has grown increasingly perplexing. In many instances the stressing of current fee production has been at the expense of future fees, which, after all, have been the industry's historical bread and butter.

What we propose to do is review the relative importance of both current fee and future fee business to trust departments today and in the foreseeable future. In order to do this, it is necessary to look at the environment in which trust departments operate both from a philosophical standpoint and through a numerical analysis of the various types of services offered and their impact on bottom line.

First, however, we must define what we mean by future fee and current fee business. Future fee is derived from primary appointments in an individual's estate plans, such as executor, co-executor, trustee and co-trustee under wills and non-funded life insurance trusts. Current fee business is defined as those fiduciary services for which fees are charged immediately, as in living trusts, investment management, investment advisory, custody and other accounts requiring active management of assets.

Before any meaningful conclusions

can be drawn about the relative importance of current fee vs. future fee, it is crucial that we understand the environment in which the trust industry operates. In an effort to know where our focus should be in the 80's, we need to look at our recent history and where we are at right now.

History of Trust Services

Historically, trust services were offered to a bank's directors and its highly visible customers. These services were looked upon as a perquisite banks could offer these important individuals, and they were often priced as such — that is, nominally. Such things as marketing plans and the establishment of either departmental or individual goals were unheard of. As a result, the fees charged were often so low that trust departments were unable to contribute to a bank's overall earnings. The major emphasis of trust new business officers was the production of future fee business.

Today, our environment has changed considerably. On the one hand, bank management now stresses that trust departments must make increasingly significant contributions to the overall profitability of the institution. This is due, in part, to a rapidly changing economic and competitive environment. In addition, banks are becoming increasingly sophisticated about determining

the overhead required to provide various kinds of services, and the impact of these services, at various price levels, on their profit picture. Management emphasis in the generation of fee income is ultimately reflected in the goals we in the business establish for our marketing department's production of current fee business. These goals have been met, in many situations, at the expense of future fee business.

The types of customers with whom we work today have also changed, with the result that future fee business is harder to sell. There are many reasons for this. Probably the most prominent is ERTA '81 and the so-called unlimited marital deduction. Many professional advisers are telling their clients that they can die with a simple will leaving their entire estate to a surviving spouse and completely avoid any estate taxes. What they fail to stress is that after 1987 a couple with an estate of \$1.2 million dollars can save as much as \$235,000 in estate taxes for their ultimate beneficiaries through the use of a bypass trust.

The structure of the family also has

This is an adaptation of a presentation that Mr. Budner made with the assistance of Mr. Hendrix at the Bank Marketing Association's 1983 Trust and Personal Financial Services Marketing Conference, held November 13-16, 1983 at the Fairmont Hotel in Dallas, Texas.

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changed considerably over the past 10 to 15 years. Increasingly we are seeing both spouses assuming responsibility for the family's financial affairs. Rarely is there one spouse who wants to be "taken care of." Instead, both spouses want to actively participate in investment decisions, and following the death of one of the spouses, the surviving spouse may insist on making investment decisions instead of giving a bank this responsibility. The old adage "what's good for the goose is good for the gander" has taken on a new meaning.

Although changing role behavior has had a pronounced effect on selling future fee business, there are other reasons that fewer individuals are interested in using a bank in their estate plans. Perhaps the most obvious is the perception that banks have had, at best, mediocre investment performance records. To a certain degree this perception is the result of articles published by a segment of the media. The notion has also been spread by those trust customers who have had real or perceived bad experiences. Typically, many of these people are in the same social circles as our prospects. Possibly many of these individuals downgrade trust departments not because of poor investment performance, but because they don't have complete control of the assets. Could it be that this is the very reason the trust was established in the first place?

Advantages of a Corporate Fiduciary

It could be, however, that we and our consumers are losing perspective on a very important aspect of our business. The need to name a bank as executor or trustee in one's estate plans is still there. Not only are there tax advantages to the use of trusts, there are additional reasons for using a bank that are perhaps even more important than the saving of taxes.

The use of a corporate fiduciary can assure that the disabled, the immature and the inexperienced are provided for in a manner consistent with the testator's desires. There are many individuals who have little or no experience in managing or investing assets. This type of person can not only be financially detrimental to themselves, but also to an estate's ultimate beneficiaries — often children. And let us not forget that many testators have second spouses or stepchildren to whom they do *not* wish their estates to pass.

Even though a customers' need for future fee business still exists, can we increase the emphasis on its production

CHART I AVERAGE VALUE PER APPOINTMENT		
	Future Fee	Current Fee
1979	\$ 393,500	\$ 411,506
1980	1,149,274	548,281
1981	1,088,661	901,822
1982	1,592,140	1,406,729

CHART II AGGREGATE MEAN VALUE			
	Future Fee	Current Fee	Difference
1979	\$179,170,000	4.5	\$ 40,240,000
1980	366,019,243	3.5	102,507,571
1981	394,393,773	3.0	131,127,104
1982	611,038,333	2.7	226,106,334

CHART III MEAN FEE PER APPOINTMENT		
	Potential Future Fee	Current Fee
1979	\$ 6,900	3.5
1980	30,215	3.0
1981	23,576	7.1
1982	33,669	9.2

CHART IV MEAN ANNUALIZED FEES		
	Potential Future Fee	Current Fee
1979	\$2,998,000	15.5
1980	4,401,775	10.8
1981	3,782,117	8.8
1982	5,614,110	10.7

CHART V SOURCES OF INCOME (All from 1983 study)		
	Maturing	Current
1979	65%	35%
1980	66%	34%
1981	61%	39%
1982	57%	43%

and still meet the income production objectives of our respective institutions? We believe that the answer is "yes." We can do a better job of developing both types of business by working intelligently, developing our best centers of influence and reeducating consumers on what we can do for them. The important point to keep in perspective is that current fee and future fee are mutually compatible, with one product helping to sell the other.

The Statistical Story

It is easy to talk about current fee vs. future fee from a philosophical standpoint, but what our numbers tell us is ultimately more important. In order to determine the ultimate impact of current fee and future fee, we conducted a survey of ten banks in various regions of the country, each with managed assets of more than \$500 million. The group included banks from common law and community property states, as

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well as branch and unit banking states. In Charts I, II, III and IV, the results of our survey were combined with the last published B.M.A. Trust Marketing study for the year 1979. Due to our lim-

*It still bears
considering that in
1982, in absolute
dollars, future
fee business was
worth almost
\$385 million more
than current fee
business*

ited sample base and the fact that different banks have different recordkeeping practices, our numbers may not be a scientifically perfect sampling of the trust industry as a whole, but they seem to indicate meaningful trends and provide a basis for comparison.

Chart I shows the average value per appointment of future fee vs. current fee. We can see from this exhibit that the average value of our accounts has increased considerably since 1979. This is due in part to the impact of inflation on the value of our customers' estates, as well as our ever-increasing focus on more selectivity in the solicitation of new accounts.

The Aggregate Mean Value (the total average value of business generated) is illustrated in Chart II. While the amount of future fee business used to outweigh current fee business by 4.5 times the sum of the latter's value, and that figure has dropped to 2.7 times, it still bears considering that in 1982, in absolute dollars, future fee business was worth almost \$385 million more than current fee business. It obviously makes little sense to forgo future fee business when it will eventually make such a significant contribution to the assets under management for which fees can be charged.

The Mean Fee Per Appointment is shown in Chart III. In 1979 the sum of potential fees generated by future fee business was 3.5 times greater than current fees. This multiple, while fluctuating, has increased to 9.2 by 1982. Again, this exhibit suggests that the production of quality future fee business can make a significant contribution to the trust industry's ability to

contribute to overall bank profitability.

Chart IV compares gross mean annualized fees for potential future fee income vs. current fee income. While the multiple has declined from 15.5 in 1979 to 10.7 in 1982, future fees are still significantly greater than current fees. Of course, although potential future fee income is 10.7 times greater than current fee, it may be unrealistic to assume that all or even a significant portion of this future business will mature. If we assume, however, that only 25 percent of the potential future fee business generated in 1982 will eventually mature, future fee will still be 2.6 times greater than the current fee income produced in the same year. Another confirmation of the importance of quality future fee business.

Finally, Chart V, which was derived entirely from our 1983 study, depicts sources of income for the trust departments sampled. This exhibit shows that future fee business, while declining since 1979, still contributes upon maturation over half of the trust industry's total income. And the decline in relative importance may be partially due to a self-fulfilling prophecy — in emphasizing current fee business many trust departments have in effect de-emphasized the solicitation of will appointments. To do so may be foolish, because these numbers demonstrate that future fee business upon maturation plays a very significant role in the generation of total trust fee income.

All of these exhibits suggest that the increasing emphasis we have placed upon current fee may take a toll on another important income source — future fee business. Future fee business still has significant income generating potential for the trust industry. It is for these very reasons we believe that we must renew our efforts to develop and retain future fee business in the 80's, not at the expense of, but rather in conjunction with, our current fee marketing efforts.

Nor do we mean to imply that one aspect of our business should be stressed at the expense of another. Instead, the question is determining how we can market all of our trust services more effectively. One tool that we have found useful is a marketing plan. Planning has helped us to considerably improve the quality and quantity of our business development efforts through better utilization of our resources.

Successful Sales Management

Any plan, no matter how good, however, is merely an academic exercise unless it is implemented. **TRUSTS & ESTATES / FEBRUARY 1984**

less we learn to implement it properly through the management of our sales organization. Sales management involves a number of things. First and perhaps foremost is training. In order to effectively market our services, our sales people must have in-depth product knowledge and an awareness of what differentiates us from our non-bank competitors. This should be accomplished through an ongoing educational process. We have regular weekly meetings utilizing the talents of outside professionals as well as associates from other areas of our trust division and our investment company.

Sales management also requires the establishment of reasonable goals and objectives. Through involving our marketing people in the establishment of goals and objectives we create in essence a participatory democracy, which is crucial if these goals are to be achieved. Motivation is another critical aspect of sales management. This must involve not only financial rewards, but also participation in the planning process. By allowing the sales team a voice in controlling their destiny, we ensure a more productive marketing effort all around.

Conclusion

If we are to be successful in the 80's, we must step back and refocus our perspective and realize that future fee business has brought us where we are today. The numbers show that future fee business can still assist us in making significant contributions to our institutions' earnings. We must consider what would happen if the 57 percent of our total trust income generated by maturing business in 1982 disappeared? Unless we renew our future fee marketing efforts, this could very well be the case. Without maturing business, our income goals will become increasingly difficult to meet.

Although the field of estate planning is more complicated today than it was a decade ago, our services as executor and trustee continue to meet the needs of our customers. These needs include not only tax planning, but, more importantly, family planning, and the experience and expertise we can provide the beneficiaries of our accounts. Though future fee business may require more of a selling effort today than it used to, the numbers presented in the attached charts prove that a market still exists for banks as executors and trustees.

Through proper planning and management of our sales organizations we can effectively market both our current TRUSTS & ESTATES / FEBRUARY 1984

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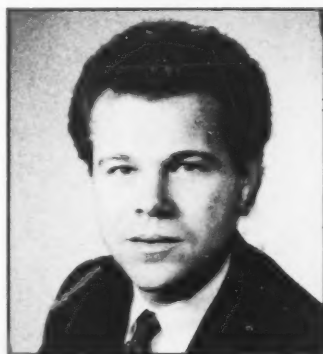
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and future fee products. Both should have equal emphasis. For, as we have previously indicated, these two types of business are mutually compatible, with one helping to sell the other. That is why, when asked by our bank's senior management whether or not future fee business is worth the effort, our response is an unqualified yes. □



Lawrence H. Budner is a senior vice president and senior trust officer with InterFirst Bank Dallas, N.A. An employee of the bank since 1951, he has had special responsibilities in the area of new business development. Budner serves as chairman of both the bank's senior trust committee and its business development committee, and is a member of the trust fee committee.

Budner has published a number of articles on estate planning subjects, including several in TRUSTS & ESTATES. He received a BBA in Banking and Finance from Southern Methodist University in 1951.



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